


**SUBSCRIBE**
[AFT Table of Contents](#)
[About the Magazine](#)
[Past Online Articles](#)
[Professional Services](#)
[Sign Up for AFT e-Newsletter](#)
[Housing Reference Center](#)
[AFT Conference](#)
[Subscribe](#)

## Apartment Finance Today

### REGIONAL MARKETS

#### NORTHEAST/MID-ATLANTIC

## Baltimore's Prospects Improve

APARTMENT FINANCE TODAY • September 2008

**New health and biotech jobs help Baltimore swallow new construction—with slight indigestion.**

BY BENDIX ANDERSON

**Baltimore**—Millions of square feet of apartments, townhouses, and office space are rising in East Baltimore, redeveloping one of the toughest neighborhoods in the city.

It's just another part of the building boom here, which since 2000 has brought new housing and jobs to the once-quiet communities around Baltimore's Inner Harbor neighborhood.

Developers Forest City Enterprises, Inc., and East Baltimore Development, Inc., will eventually fill 88 acres with more than 1,200 units of housing and up to 2 million square feet of biotech research space at their \$1.8 billion New East Baltimore development just north of Johns Hopkins Hospital. The first phase, including 850 units of housing and 1.1 million square feet of office space, is under construction.

"We have a tremendous shift occurring in our life sciences and health arena," said Bob Aydukovic, vice president of the Downtown Partnership of Baltimore, Inc. The Partnership predicts demand for 7,400 units of new housing downtown by 2012 as 17,000 new jobs pour into the area.

That's good news for the whole region, helping Baltimore's economy and its apartment markets, in particular, to keep growing despite a nationwide economic slowdown led by a collapse in the housing business. Strong consistent demand for apartments here has kept the percentage of vacant units from swelling much despite heavy new construction.

The Baltimore metro area also added 11,100 jobs over the 12 months that ended in April, a 0.8 percent increase to its employment base. Not bad, considering that the nation's overall payroll grew by just 0.2 percent, data shows.

Much of the job growth is within the city limits. In 2007, Baltimore posted its first net population increase since 1955, according to the U.S. Census. As of May, the metro area had more than 3.6 million square feet of life sciences space, mainly around institutions with expansion plans, like Johns Hopkins. Meanwhile, on the other side of town, the University of Maryland, Baltimore (UMB) is opening its own UMB BioPark.

#### Developers fill the need, and then some

This year, developers will open 1,271 new rental apartments in the Baltimore area. That's down about a third from the 1,949 apartments that opened in 2007, and slightly under the average 1,288 a year over the last 10 years, according to information from the New York City-based apartment analysis firm Reis, Inc.

The market has been able to fill an average of 1,000 net apartments a year over the last 10 years, according to Reis. With construction of new apartments ahead of absorption, the percentage of vacant apartments has crept upward to 5.4 percent.

As vacancies inch up, rent growth has cooled. Effective rents will grow 3.6 percent in 2008, according to Reis, down from a 5.3 percent pace in 2007.

Over the next three years, developers plan to complete between 1,200 and 1,600 new apartments a year, while the market absorbs between 900 and 1,400 units annually. The imbalance will push vacancies up to 6.1 percent by 2011.

That's hardly a doomsday scenario, and throughout this period effective rents are projected to grow 3.4 percent to 3.6 percent a year.

### Vacancy Rates

#### Year

2004

2005

2006

2007

2008\*

2009\*

2010\*

2011\*

\* projected

*Source: Reis, Inc.*

Stabilized apartments can be very full here even as vacancies creep upward. Only 1.3 percent of the apartments in Southern Management Corp.'s portfolio of 3,860 stabilized units in the Baltimore area were vacant as of August. "Overall, we're extremely healthy," said John Cohan, director of marketing for the Vienna, Va.-based developer.

At 6.8 percent at the end of the second quarter, vacancies were higher within the city of Baltimore as the new projects opening downtown slowed the submarket, according to the local market analysts at Delta Associates.

For example, the lease-up has been slow at Southern Management's 39 West Lexington property, which started marketing its 181 apartments in February at the average rate of nine units a month. Rents are strong, however, at an average \$2.15 per square foot.

The outlook for downtown's rental market is healthy. Although some developments have been delayed or canceled because of the difficulty of finding financing, demand for apartments is expected to grow as area employers expand their headcounts, according to the Downtown Partnership.

"There's lots in the pipeline, but virtually none of it is moving into actual construction," said Aydukovic of the Downtown Partnership. "We are probably a year away from our next apartment or condo delivery."

#### **Condominiums fail**

Condominiums have had a harder time than rentals. Five condominium developments totaling 509 units have been canceled this summer alone, according to Delta Associates. The largest would have brought 294 new condos to the Inner Harbor neighborhood.

Condominiums suffer in comparison to Baltimore row houses, which in prime neighborhoods now sell for about \$500,000. Luxury condominiums typically offer less space for about the same price. Competition between developments is also fierce.

"Quite a few condo projects have been delivered in the last year," said William Rich, vice president for Delta.

As competing projects bid down each other's prices, potential buyers are turning away from the market. There were just 59 condo sales in Baltimore in the second quarter, according to Delta Associates. "Buyers are chickening out and not going ahead with closings," said Rich.

Analysts expect few new condos to enter the market in the immediate future, delaying any recovery in the condominium market to after 2010. None of the \$520 million in apartment properties that changed hands here over the past 12 months were bought by condominium converters, according to New York City-based Real Capital Analytics (RCA).

That \$520 million in sales represents a sharp drop in the volume of transactions compared to \$2.5 billion a year earlier. The Greenhouse, the only property sold downtown, was priced at \$13 million, or \$147,727 per unit.

The low volume was caused in part by the credit crisis. Still, prices remain strong and capitalization rates, which represent the income from a property as a percentage of the sale price, fell to 5.8 percent in the second quarter from 6 percent the year before, according to RCA.

"Buyers are looking for stability and job growth," said Scott Melnick, co-director of the institutional multifamily group for real estate investment firm Transwestern. "Baltimore has good prospects."